Economic Statecraft and Asia's Role in the World Economy

Economic Diplomacy as Public Policy

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Conclusion

1. Asia's modern role in the global economy
   - 1.1 Empirics
   - 1.2 Emerging challenges
     - 1.2.1 Demography
     - 1.2.2 Giants and small states
     - 1.2.3 Revisionist powers in world order: 3 shocks
2. National strategies
   - 2.1 Strengthen core
   - 2.2 Diversify alliances
3. Economic diplomacy: "Economic statecraft for small states"
   - Thucydides price-taking vs. bending the world to your geopolitical will
   - Align. Acquiesce. Adapt and mitigate: help shape global rules.

Asia’s modern role in the global economy

Asia's remarkable and unexpected success

	1990	2023
Contribution to global growth	1/4	2/3
GDP per capita (USD 1k)	1.6	9.1
GDP (USD tn)	5.5	40
Population (bn)	3.2	4.4
Working age (bn)	2.0	2.8
Employment (bn)	1.6	2.2
Extreme poverty	52%	6.5%
Life expectancy (years)	66	75
Literacy	71%	91%

Table 1: Asia's successes. Source: Author's calculations from IMF, World Bank WDI, UNESCO, ILO

- Despite 1997, 2003, 2008, 2020, ...
- Contribution to global growth from 25% to nearly 70%
- GDP per capita $>$ 5% per year
- GDP $> 7\times$
- Extreme poverty from over 1/2 to 1/16
- Literacy rise by 20 percentage points
- Life expectancy increase by a decade

Asia's demographic challenge

%	2000	2015	2025	2030	2040	2070
SG		13	21	25		
KR			20		34	49
JP			28	(median age 50 by 2025)		
CN	7		16			

Table 2: Percentage aged 65 or older. Source: Author's calculations from IMF, UNESCO, UN World Population, ILO

- Dependency ratio constant at 36–37% . . .
  - ... but sharp NE vs S
  - . . . and employment faltered, so non-working working-age from 0.4bn to 0.6bn
  - India working-age population rise 2× employment
- Steady-state 17% fall in Asia's GDP per capita if, best case, reallocation and no growth impact
- Alternatively, individual country effects: SG, CN, JP

Asia is not just China and India but instead many small states

	Median	Ratio	Top 10%
	Asia-Pacific		
1990	19	4.2	71%
2023	30	3.5	77%
	World		
1990	4.5	6.0	75%
2023	9.5	4.3	73%

Table 3: Asia is many small states; the world, even more so. Median is in millions; Inequality is the mean-median ratio; Top 10% denotes the population share in the top tenth of the cross-section of nations. Source: Author's calculations from UN *World Population Prospects*

- Asia is not just India and China: small states make up most of Asia's community of nations.
- The world even more skewed, with median population smaller, and mean-median ratio and top 10% shares larger.

Asia small states economic prospects

Correlation	1990	2023
Population, GDP per capita	−0.45	−0.20

Table 4: Asia — The dynamic effects of size. Source: Author's calculations from IMF WEO, UN World Population Prospects

- Correlation negative, falling over time
- Asia's story in the modern era includes that of large nations succeeding and, for now, some small rich economies. But the cards are stacked wrong.

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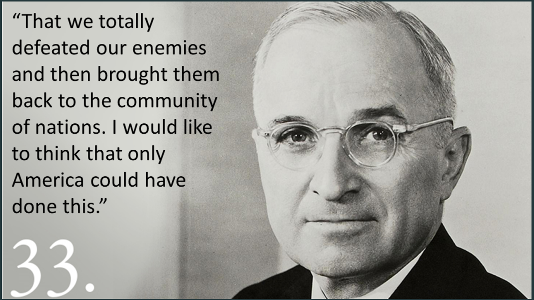
1. Theories of growth: Hausmann complexity. Diversity. R&D. National champions through industrial policy
2. Trade and success: Despite "too much, too little", world's nine richest economies (excluding the US) average only 4mn population.

Asia small states success: Multilateralism, rules-based order, and US leadership

Multilateralism

- Level playing field
- Peaceful dispute resolution
- Cooperation



Revisionism in 3 Shocks

The China Shock (Supply)

- Comparative advantage theory remains. Cost of living eased. Global South EVs
- Consumers vs business. Size, scale, speed
- Jobs, industry, middle-class communities
- Indonesia's China imports 10% in 2003 to 40% in 2023; Thailand's 10% to 35%

The US Shock (Demand)

- Tariffs and other trade and investment disruptions
- Decline in unipolarity and in appeal of Kindleberger hegemonic stability
- Global insurer to profits extracter
- "We're the superpower..."

The Multilateralism Shock

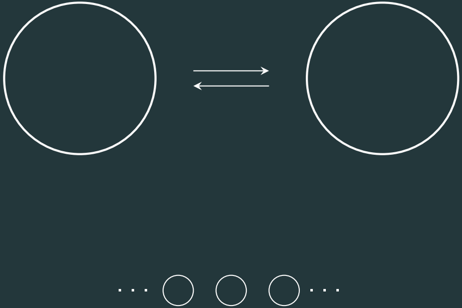
- Level playing field; Peaceful dispute resolution; norm of cooperation...
- ...to "might makes right" unilateralism
- 2019–2022 three-fold rise in individual nation-imposed restrictions on international trade

Policy responses

Action list: Economic Security

1. Economic security: Economic optimality subject to calibrated risk of disruption—in turn natural and intentional—in essential supplies and resilient domestic capacity:
    1.1 Natural events: Climate, earthquakes, tsunamis, pandemics
    1.2 Demography
    1.3 Shocks to the international system that carry intentionality
2. Traditional national strategies: Strengthen core. Diversify alliances.
3. Economic diplomacy: "Economic statecraft for small states"
    - for security against both Great Power intentionality and inadvertent "sharp-elbow" harm

“Great Powers do what they will. The rest of us suffer what we must.” (Thucydides 400BCE, *The Peloponnesian War*)



$g \in G = \{0, 1\}$

$s \in S = \{\ldots, -1, 0, 1, \ldots\}$

Figure 1: Two Great Powers and many small states

Model

$$V_g(r) = \sup_{(e,n,R)} \left\{ U_g(e,n,R;r) + \beta V_g(r') \right\}$$

$$\text{s. t. } r' = \phi(r,e,n,R).$$

$$V_s(R) = \max_{x \text{ in } \{l,c,m\}} \left\{ U_s(x;R_0,R_1) + \beta V_s(R') \right\}$$

$$\text{s. t. } R' = R_0' \cap R_1'.$$

- Great Powers $g \in G$ compete with each other, optimizing over economic policies e, national security policies n, rules R (their "rules of the game"). Great Powers value their ranking r, which is a state variable that evolves endogenously according to law of motion ϕ.
- Small states $s \in S$ align, acquiesce, or mitigate, subject to Great Powers' rules.

Economic Diplomacy vs Economic Statecraft

Thucydides and small-state agency

1. Economic statecraft is what $g \in G$ do, a "means of working the US's geopolitical will in the world" (Blackwill and Harris, 2016; CMS, BGH, MRS, CMO).
2. Economic diplomacy is what $s \in S$ need to do, absent multilateralism
3. Inversion: Switched dependent variable, equilibrium concept, mechanism, normative perspective.

Small state strategy

Align

- Choose a side.
- Long-run commitment
- Optimal if the world zero-sum

Acquiesce

- Appease. Placate.
- Is the major power clear in its objectives? Is its leader mercurial?
- Cheap-talk signalling
- Short-run stabilisation
- Limited effects if opponent follows strategic unpredictability and "flood the zone" tactic

Adapt and Mitigate

- Global climate crisis counterpart: Symptoms vs Causes
- Domestic resilience: Strengthen the core
- Plurilateral networks for inadvertent cooperation: MPIA, CPTPP, RCEP, FIT-P
- Incentive-compatible pathfinder multilateralism
- ... or, more generally, a multilateral-enough G-minus world

Align, acquiesce, or mitigate?

Tariffs and Trade | Tariff Tracker | Timeline | U.S.-China Relations | Deal With South Korea | U.S.-Mexico Talks | Tariff Increase on Canada

Xi Delivers Veiled Warning to Nations Not to Take the U.S.'s Side

At an Asia-Pacific summit, the Chinese leader urged countries to "resist unilateral bullying," an appeal that seemed at odds with his country's recent actions.

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President Trump and Xi Jinping, China's leader, on TV at a restaurant in Gyeongju. Mr. Xi was the sole superpower leader at the Asia-Pacific Economic Cooperation summit with Mr. Trump gone. Chang W. Lee/The New York Times

By David Pierson and Berry Wang
David Pierson reported from Gyeongju, South Korea, and Berry Wang from Hong Kong
Oct. 31, 2025
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THE STRAITS TIMES

Global fragmentation still likely after Trump-Xi meet, but countries can act to mitigate: PM Wong

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Align (if zero-sum)

	AOCAI; CN 0, US 100		
	1995–2009	2010–2024	Δ
BN	50.3	45.1	−5.2
KH	43.1	33.2	−9.9
ID	56.1	43.7	−12.4
LA	33.3	24.9	−8.4
MY	52.1	47.3	−4.8
MM	26.4	23.6	−2.9
PH	64.1	60.4	−3.7
SG	53.6	48.1	−5.5
TH	50.6	43.7	−6.9
VN	41.1	45.2	+4.2

Table 5: Khong-Liow (2025) Anatomy of Choice Alignment Index

Pre-Trump 2.0

- **Prop** If the game is zero-sum, alignment is optimal.
- "I'm going to war. Who's with me?!" (obviously don't read it that way)
- China drift, under Δ: all except VN; most marked ID, KH, LA
- China drift, from above to below 50: BN, ID, MY, SG, TH
- US aligned: PH
- (Pol-Dip. Mil-Sec. Econ-Trade. Soft Power. Signalling)

Align — or strategically sidestep?

Alignment

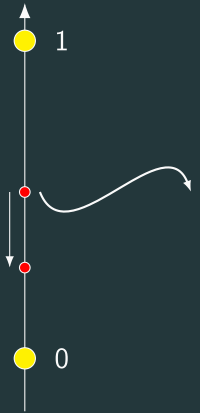


Figure 2: Align. Or step off

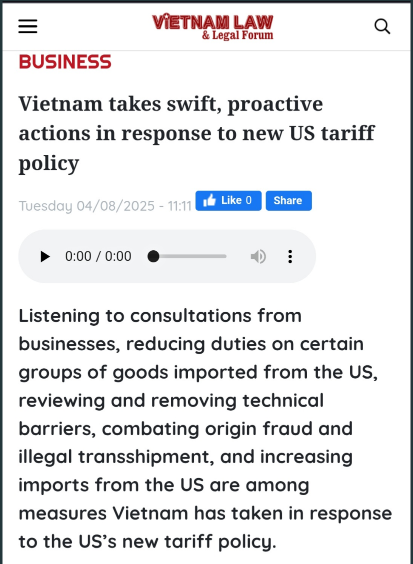
1. Given Great Power primacy, aligning (and hedging, bandwagoning, balancing, . . .) might suggest confining choice to be somewhere on the straight line joining two Great Powers. But maybe . . .
2. . . . consider stepping off that line altogether.

Acquiesce (if positively elastic)

	Investment	Returns
VN	TL-DJT	LDT 46% to 10-15% to 20% and 40% on trans-shipments. USD1.5bn Trump family golf complex Hung Yen.
PH	FM-DJT	LDT 17% to 20%, then 19%, potentially 40% on trans-shipments. Zero tariffs and NTBs on US. Alignment with US export controls. No FTAs with "countries of concern".
ID	DC	LDT 32% to 19%, USD34bn purchases of US energy, agricultural products, aircraft, investment in Louisiana
MY	DC	LDT 24% to 19%, but USD240bn commitment on spending and investment on US energy, aircraft, and equipment
IN	DC	LDT 26% to 25%, but then to 50% on Russia connection
KR	DC; FTA	LDT 25% to 15% plus USD350bn commitment to US "strategic projects"
JP	DC	LDT 24% to 15% plus USD550n commitment on US-directed projects

[excerpt from extended table in "Negotiating an Inelastic US" (Oct 2025)]

Align, acquiesce, or mitigate?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BUSINESS

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Align, acquiesce, or mitigate?

Adapt and mitigate: What small states bring; why we value major powers

Risk of Great Power expropriation

1. Buffer: Strategic geography. Military base provision
2. Natural resources or specific technologies.

Sovereignty impact multiplier

1. Honest broker. Neutral convenor. Diplomatically agile
2. Political legitimacy—so hegemonic unilateralism can look multilateral. Signals political autonomy and freedom from coercion.

Major powers

1. Increasing returns to scale, e.g., insurance; organised violence; protection from expropriation; enforce rules
2. Arithmetic: consumers and lenders of last resort; stable, sizeable markets
3. But the same power wielded for good can also do us harm

Mitigate: Make it multilateral-enough again

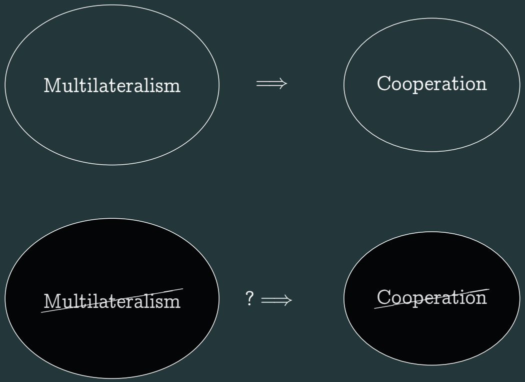

Figure 3: Multilateralism is sufficient but not necessary for cooperation. The world needs just to be "multilateral-enough".

1. Acharya multiplexity, Buzan, and regionalism provide first steps. Not Middle Powers but hyper-multipolarity.
2. EVs. Butchers. "Do the right thing, even if for the wrong reason"
3. If you want to be a hub, be intelligent: Strategically trade off between expropriation risk and sovereignty impact
4. Pathfinder multilateralism: MPIA, RCEP, CPTPP, FIT-P
5. Multilateral-enough G-minus world. Spaghetti

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